LATEST NEWS

Pacific Business News (Honolulu) - 5:37 AM HST Thursday, March 17, 2005

PUC approves Verizon spinoff

The Public Utility Commission has approved the $1.65 billion sale of Verizon Communications' local operations in Hawaii to The Carlyle Group.

The commissioners voted 2-1 Wednesday to approve the deal, which does not include the local operations of Verizon Wireless, a separate company.

The decision is a book-sized and includes several conditions for Carlyle to meet, including reducing the debt ratio of the local operation. Carlyle can appeal if it wants written clarification of any of the conditions.

After that, Verizon and Carlyle expect closing the deal to take a month, followed by a transition period that will likely take the rest of the year.

First Hawaiian Bank Chairman Walter Dods, who has been advising the Carlyle investors, has said that a big advantage of the sale will be local job creation. Verizon had moved administrative work to the Mainland; this will restore it.

Pacific LightNet Communications President Pat Bustamante, who has been raising questions about the deal, says a major concern is that Carlyle is not experienced at this business, which has unique technical and billing issues caused by the fact that a single call may be handled by several companies.

Carlyle's managing director has regulatory experience in the field, however. William Kennard was chairman of the Federal Communications Commission from 1999 to 2001.

State Consumer Advocate John Cole has raised a separate issue, that the company will carry heavy debt that is likely to persist after Carlyle resells the property and takes its profit. Carlyle has not said it will do that but its business model has been to do so.

In 2003, Carlyle bought CSX Lines, the second biggest shipping line to Hawaii, for $300 million. In 2004 it sold the renamed Horizon Lines to Seattle investors for $650 million, two days after announcing its plans to buy Verizon Hawaii.

Carlyle agreed to the following terms in the Verizon deal:

- Verizon Hawaii will provide $12 million to fund a customer-appreciation bill credit equal to roughly one month's basic phone service for subscribers.
- Any transaction and transition costs incurred by Carlyle in connection with the acquisition cannot be passed on to ratepayers.
- Carlyle will not file for a general rate increase before 2009 unless the PUC finds a compelling reason for such a request. If Carlyle is able to demonstrate a compelling reason for a rate increase before 2009, it must make an additional equity investment in the telephone company equal to the amount of the annual increase it wants from ratepayers. In addition, 67 percent of Carlyle's revenues from local directory operations

would be counted against its revenue requirement for purposes of calculating any such rate increases.
Additional conditions deal with access to information, reporting requirements, creditor access to pledged assets only upon PUC approval, and the treatment of income tax expenses in future proceedings.

Carlyle is often described as a politically well-connected investment group. That's because executives and advisors have held some of the top government posts in the United States.

Former Secretary of State James Baker is senior counselor, former White House budget chief Richard Darman is managing director and former Secretary of Defense Frank Carlucci is chairman emeritus of the company.

Former British Prime Minister John Major heads Carlyle's European arm.

Former President George Bush was once senior adviser to the Carlyle Asia Advisory Board, but retired from that position in October 2003.